

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT PETITION OF KENTUCKY POWER)	
COMPANY, KENTUCKY UTILITIES COMPANY)	
LOUISVILLE GAS AND ELECTRIC COMPANY,)	
UNION LIGHT, HEAT AND POWER COMPANY,)	
WESTERN KENTUCKY GAS COMPANY AND)	CASE NO. 92-043
KENTUCKY-AMERICAN WATER COMPANY FOR)	
CERTAIN ACCOUNTING AND RATEMAKING)	
AUTHORITY ASSOCIATED WITH THE)	
IMPLEMENTATION OF STATEMENT OF)	
FINANCIAL ACCOUNTING STANDARDS NO. 106)	

O R D E R

IT IS ORDERED that Kentucky Power Company, Kentucky Utilities Company, Louisville Gas and Electric Company, Union Light, Heat and Power Company, Western Kentucky Gas Company, and Kentucky-American Water Company ("Joint Petitioners") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The

information requested herein is due no later than August 20, 1992. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such a motion will be considered by the Commission.

1. In the past, the Commission has not formally adopted accounting standards issued by the Financial Accounting Standards Board ("FASB"). Provide a detailed narrative explanation as to why the Commission should treat this accounting change any differently than other accounting changes that have been issued by the FASB.

2. Provide a detailed analysis reflecting the estimated effect of implementing the Statement of Financial Accounting Standard No. 106 ("SFAS 106") on each utility's estimated 1992 expense levels and earnings levels both exclusive of the transition obligation and inclusive of the transition obligation (assuming a 20 year amortization period). Include with your response all supporting workpapers, calculations, and cost data supporting the analysis.

3. If, in this case, the Commission were to adopt SFAS 106 for regulatory accounting purposes only, deferring consideration of rate recovery to future rate cases, would this provide the utility with a probability of recovery sufficient to record a regulatory asset pursuant to SFAS 71? Why or why not?

4. Provide a detailed narrative explanation as to why this Commission should allow a return on the unamortized balance of any regulatory asset created as a result of SFAS 106.

5. Provide a detailed analysis and narrative explanation of the effect adopting SFAS 106 will have on the utility allocation(s) to and from affiliates. Provide any studies, reports, memos or other written documents which support the analysis and explanation.

6. Provide a detailed narrative explanation as to why the Commission should by Order authorize the utility to set up a regulatory asset without first determining whether the utility can absorb some, if not all, of the transition obligation and/or the increased service cost.

7. The Division of Public Utility Accounting of the Commonwealth of Virginia's State Corporation Commission issued a Staff Report in Case No. PUE920003 on July 17, 1992. In the report the Virginia Staff has recommended that a regulatory asset be allowed to be set up only if the utility is not over-earning and can then only recover the deferred amount if the utility files an application for a change in rates within two years of implementing SFAS 106 for financial reporting. Do you believe this is a reasonable approach to use in addressing the question of whether a regulatory asset should be created and recovered? Why or why not?

8. Provide a detailed analysis of each utility's current funding status and/or plans relative to OPEB costs. If the utility currently has no funding plans, provide an explanation as to why not.

9. On page 13 of Benjamin A. McKnight's prefiled testimony, he states, beginning at line 24, that the cash method ignores the economic reality and assigns only a mismatched portion of the

annual cost of OPEBS to a period by basing cost recognition on benefit payments. Provide an explanation of whether mismatching occurs if the transition obligation is allowed to be deferred and recovered in the future.

10. Provide a detailed explanation as to why SFAS 106 costs should be treated any differently than any other costs that may be higher or lower than the amount included in rates in the utility's last rate case.

11. Provide a brief review of the benefit plans provided to retirees by each of the joint petitioners.

12. Provide the assumptions used by Kentucky Power, Kentucky Utilities and Louisville Gas & Electric company in developing the "point in time valuations" which are the basis of the forecasts developed by Thomas S. Terry in his prefiled testimony.

13. Provide specifics regarding what the Petitioners would consider "appropriate written evidence that indicates approval of SFAS 106 for regulatory purposes and the recovery of regulatory assets through rates", as Mr. McKnight stated should exist, in his prefiled testimony on page 22, lines 1 thru 3.

14. Using Kentucky Utilities Company as an example, illustrate the revenue requirements and rate base impact and explain in detail the proposal to include the related accumulated balance for OPEB liabilities, net of any unamortized deferred costs or prepaid assets, in rate base as stated in Mr. McKnight's prefiled testimony response to question 27.

15. SFAS 106 provides two options for recognizing the transition obligation, either immediate recognition or phased-in recognition, each of which are subject to certain limitations. For each utility, state which method will be implemented for both financial and regulatory purposes.

16. Provide the journal entries each utility will make upon the adoption of SFAS 106 assuming a regulatory asset is created as allowed under SFAS 71. Furthermore, show the journal entries that will be made in subsequent years corresponding to the exhibits of the witnesses.

Done at Frankfort, Kentucky, this 10th day of August, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director